

1999 Landlord and Tenant Tax Notification Program

(City Council on December 14, 15 and 16, 1999, adopted this Clause, without amendment.)

The Policy and Finance Committee recommends the adoption of the following report (November 23, 1999) from the Chief Financial Officer and Treasurer:

Purpose:

To request additional funding for the 1999 mandatory notification program for rental properties as a result of the Provincial Government reduction of education taxes, and funding for an evaluation of the 1998 and 1999 notification programs to guide planning of long term administration options for this program.

Funding Sources, Financial Implications and Impact Statement:

An allocation totaling \$135,000.00 is requested from Corporate Contingency comprised of the following:

- (1) \$75,000.00 of additional costs for mandatory tenant and landlord notices which is in addition to the approved amount of \$21,800.00 included in the 1999 Operating Budget of the Finance Department for the notification program. The allocation requested excludes staffing costs; and,
- (2) \$60,000.00 to evaluate the effectiveness of the program and to guide planning of long term administration options. The allocation requested excludes staffing costs.

It is estimated that for the year 2000 the costs of maintaining the mandatory tenant and landlord notices program will increase to \$150,000.00 as a result of an increased number of multi-residential properties receiving a tax decrease in 2000 as compared to 1999.

Recommendations:

It is recommended that:

- (1) Council approve an allocation of \$75,000.00 from the Corporate Contingency (in addition to the approved amount of \$21,800.00 included in the 1999 Operating Budget of the Finance Department) to cover the additional cost of the 1999 *Tenant Protection Act* Mandatory Property Tax Notification Program;
- (2) Council approve an additional allocation of \$60,000.00 from Corporate Contingency to fund a review of the provincially legislated requirement of the annual notification program;

- (3) the \$150,000.00 estimated cost for the 2000 mandatory notification program be forwarded to the Budget Advisory Committee for consideration with the 2000 Operating Budget; and
- (4) the Chief Financial Officer and Treasurer and the Commissioner of Community and Neighbourhood Services be directed to undertake a review of the of the notification program carried out to date by the City, as recommended in No. 2 (above), and the implications of the long term delivery and to report back prior to the 2000 notification program.

Council Reference/Background/History:

The *Tenant Protection Act* requires municipalities to provide notices to landlords and tenants of rental residential buildings with more than six units which have experienced a tax decrease of greater than 2.49 percent between one year and the next. These are called “mandatory notices”. Financial and administrative costs are incurred by the City in preparing and delivering notices, and responding to inquiries. The actual cost amount is dependant upon the number of buildings experiencing a tax decrease, the number of notices sent out, and the method of serving the notices.

For the first year of the program, 1998, Council decided that in addition to the mandatory notices, notices of municipal property tax increases or decreases would be sent to all landlords and tenants in the City. The final cost of the 1998 program was \$453,400.00 excluding staffing costs - with over 95 percent of that cost relating to non-mandatory notices.

The 1998 program cost did not reflect the significant amount of staffing and resourcing required to operate the program. In a report to the Assessment and Tax Policy Task Force dated March 29, 1999, the Chief Financial Officer and Treasurer estimated that repeating the full program again in 1999 would require a budget in the range of \$1 Million.

In April 1999, during its consideration of the 1999 Operating Budget, Council supported only a mandatory notification program for 1999 and 2000, and reduced the budget for the 1999 notification to \$21,800.00. The approved 1999 notification program budget was based on sending approximately 11,000 mandatory notices and excluded consideration of staffing costs. The announcement in May 1999 by the Provincial Government to reduce the education portion of property taxes has had a significant effect on the budget estimates for the mandatory notification program. Due to the reduced education rate, the number of mandatory notices has increased from 11,000 to 65,500 resulting in an increase cost of \$75,000.00 not previously budgeted. It is estimated that for the year 2000, the number of mandatory notices to be sent out will increase due to the third year of the capping provisions of the multi-residential class. This will result in a estimated budget of \$150,000.00 for the year 2000.

In response to the Province’s decision to reduce education taxes, the Chief Financial Officer and Treasurer submitted a report dated May 6, 1999, entitled “1999 Residential Education Tax Rates.” During consideration of this item, Council requested that the Chief Financial Officer and Treasurer submit a report to the Assessment and Tax Policy Task Force on the impact of this

change on the tenant notification process, with a view to increasing the number of tenants who receive a rent reduction as a result of reduction in the education tax rate. This report addresses the impact on the multi-residential class.

Impact of Provincial Reduction in Education Taxes - Increase in Mandatory Notices:

The immediate impact of the province's decision to reduce education taxes is an increase in the number of mandatory notifications the City is required to send from 11,000 to 65,500. The cost to the City has increased from an approved budgeted amount of \$21,800.00 to a new total of \$96,800.00. As the difference, \$75,000.00, is not currently included in the Finance operating budget, this report recommends the shortfall be funded through the Corporate Contingency fund.

As to Council's request that the number of tenants receiving a rent reduction as a result of a reduction in the education tax rate be increased, it should be noted that the impact of the education tax reduction will be reflected in the municipal property tax for rental residential buildings. Where the total property tax decrease, including the education decrease, exceeds 2.49 percent in 1999 over 1998 levels, tenants are entitled to automatically reduce their rents under the *Tenant Protection Act*.

1999 Mandatory Notification Program:

The costs outlined below do not reflect the staffing resources required to support this program, which are currently provided by both the Finance and Community and Neighbourhood Services Departments.

Under the *Tenant Protection Act*, notices to landlords must be mailed before September 15, 1999, and notices to tenants before December 15, 1999. Notices to landlords were mailed prior to the September 15, 1999 deadline. Tenant notices have been sent out in phases beginning mid November 1999.

The increased number of notices to be sent due to the Provincial Government's education rate announcement is as follows:

Original Budget vs Impact Due to Provincial Government Announcement			
	1999 Budget	Revised	Difference
No. of Notices	11,000 notices	65,500 notices	54,500 notices
Postage	\$5,100	\$35,200	\$30,100
Notices	\$6,700	\$36,900	\$30,200
Hotlines	\$10,000	\$24,700	\$14,700
Total	\$21,800	\$96,800	\$75,000

The estimate is based on the production of landlord notices in-house, and hiring an outside firm to produce and distribute the tenant notices.

Client Support / Communications:

It is expected that the 1999 notices, as with the 1998 notices, will generate inquiries and requests for calculation assistance from landlords and tenants. In 1998, Council approved hiring of a landlord organization and a tenant consultant to operate short term telephone hotlines. The hotlines provided direct service to landlords and tenants in calculating the rent impact of the notice, understanding applications and the tax changes which affected the notice (in particular, capping and phase-in of current value assessment), and where appropriate, referrals. Often callers would require assistance with non-tax matters, especially landlords who were not familiar with provincial regulations, and would request call-backs during non-business hours.

For 1999, a time limited tenant and landlord telephone hotline will be established to provide information about the notices, the complex tax changes which have occurred, and assistance with rent calculations. In the March 29, 1999 report to the Assessment and Tax Policy Task Force by the Chief Financial Officer and Treasurer, Tenant Tax Notification - Reduction in 1999 Finance Department Operating Budget, the cost of these hotlines was estimated at \$10,000.00, based on the lower number of properties and units receiving notices. As a result of the provincial reduction in education taxes, the number of mandatory notices has increased, and therefore the cost of operating the hotlines. The cost to operate the landlord hotline for up to four weeks and the tenant hotline for up to six weeks is estimated at \$24,700.00.

Newspaper advertising or information sessions about these notices this year is not being recommended. Given that only mandatory notices would be sent, the information needs are relatively straight forward, and should be adequately addressed by the notice itself, a brochure included with the notice, the telephone hotlines, and support from more traditional information sources on landlord and tenant matters.

All Councillors have been provided with a listing of properties receiving notices in their ward to assist with inquiries. A fact sheet which explains the notices, contact phone numbers and samples of the notice forms have also been provided.

Future Program Administration and Evaluation:

The cost of preparing and sending out these notices is high. We do not have data about whether or not tenants actually had their rents reduced as a result of the 1998 program.

To assist evaluation of the impact of the program, both in terms of rent reductions and customer service, this report recommends hiring a consultant through a request for proposals process to work with staff of the Finance and Community Services Divisions, and conduct a survey and analysis of tenants and landlords who received notices in 1998.

The cost of undertaking such an evaluation survey are variable depending upon the level of detail applied and the methodology. For example, one cost estimate for evaluation of the tenant notifications has been estimated at \$45,000.00 using a polling firm, and excluding administration costs. It is recommended that an allocation of \$60,000.00 be made to hire an external consultant,

and a request for proposals process will be used to minimize costs. A review would also assist the work of the City's Business Reference Group currently looking at long term tax policy options, including those policies affecting the multi-residential and rental sectors. It is anticipated that a request for proposals will be completed in December 1999 or early in 2000.

In addition to the rent impacts and customer service implications of the program, there are significant staffing implications as there is no ongoing staffing for this program within either Finance or Shelter, Housing and Support. As the City will be required to deliver this program every year, it is reasonable to begin a process of evaluation, and of deciding how the program should be delivered in the future. Review of administrative options would include:

- (a) assessing the staffing requirements and costs associated with delivery of the program;
- (b) determining whether Finance should continue to maintain a leadership role for delivery of this program, or whether that role should shift to Shelter, Housing and Support; and
- (c) presenting a recommendation for the scope of the program, including what level of notification would be most effective.

Conclusions:

The City is required to send notices of tax decrease to landlords and tenants where there are more than six units in the rental residential, and where the municipal property tax decrease is more than 2.49 percent. The number of notices to be sent in Toronto has increased significantly as a result of the Province's decision May 1999 to reduce education taxes. As a result, the cost of the 1999 notification is much higher than what was approved during the in the 1999 operating budget process.

This report requests an allocation from Corporate Contingency of: (a) \$75,000.00 to cover the additional cost of the mandatory program for 1999; and, (b) \$60,000.00 for a review of the effectiveness of the program and to assist in long term administration options. A review would also assist the work of the City's Business Reference Group currently looking at long term tax policy options, including the multi-residential and rental sectors. The report also recommends that the 2000 budget estimates be forwarded to the Budget Advisory Committee for consideration with the 2000 operating budget.

Council requested a report from the Chief Financial Officer and Treasurer about increasing the number of tenants who receive a rent reduction as a result of the reduction in the education tax rate. This report describes how the number of tenants receiving rent reductions will increase automatically should the education tax reduction boost the municipal property tax decrease above the 2.49 percent cap.

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